

6th September, 2018**To**

The Listing/Compliance Department The National Stock Exchange of India Limited "Exchange Plaza" Bandra Kurla Complex Bandra (E) Mumbai - 400 051 <u>Stock Code: SAKSOFT</u>	The Listing/Compliance Department BSE Limited Floor No.25, Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai - 400 001 <u>Stock Code: 590051</u>
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Dear Sirs,

Sub: Intimation of Credit rating for Bank Facilities

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirement) Regulations, 2015, please find enclosed the Credit Rating for bank facilities of the Company provided by CARE Ratings Limited.

Rationale for rating as received from CARE ratings is enclosed with this letter.

Please take this information on record.

For Saksoft Limited



Company Secretary

Enc: a/a.



Annexure II
Rating Rationale
Saksoft Limited

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	20.82 (reduced from 28.75)	CARE BBB+; Positive (Triple B Plus; Outlook: Positive)	Reaffirmed
Short term Bank Facilities	-	-	Withdrawn [#]
Total	20.82 (Rs. Twenty crore and eighty two lakh only)		

¹Details of facilities in Annexure – 1 [#]facility was unutilized

Rating Rationale

The ratings assigned to the bank facilities of Saksoft Limited (Saksoft) continue to derive strength from the company's long operational track record, vast industrial experience of promoters with a well-qualified management team, strong client relationships and strong financial risk profile of the company marked by stable revenue growth, healthy profitability levels and comfortable capital structure.

The ratings are, however, constrained by the medium sized operations of the company, customer & geographical concentration risk and intense competition present in the highly fragmented IT industry.

The ability of Saksoft to improve its revenues by adding new clients both in information management & testing segments, improve its profitability levels and manage the revenue concentration risk are key rating sensitivities.

Outlook: Positive

The outlook is "Positive" as CARE believes that going forward, with the shift in strategy of the company to move into higher margin services in the Information Management space and ability to cross sell services with recent acquisitions, the company is expected to report higher operating profit. The reliance on debt is low and the capital structure is expected to remain comfortable. The outlook may be revised to 'Stable' if the company is not able to maintain its profitability levels or if there is any adverse change in the capital structure of the company.

CARE continues to take a consolidated view of Saksoft and its subsidiaries, considering the strong operational and financial linkages. All the companies are engaged in a similar line of business under a common management.

Background

Established in 1999 by Mr Autar Krishna and his son Mr Aditya Krishna, Saksoft is engaged in providing business intelligence and information management solutions predominantly to mid-tier companies based out of USA and UK. Saksoft initially catered to the BFSI segment

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

before diversifying to e-commerce, manufacturing, public sector and education verticals. Over the years, Saksoft has grown both organically and inorganically by acquiring various companies in complementary line of business expanding its product offerings. The company now offers associated services like application development, testing & quality control and solutions based on cloud, mobility and Internet of Things (IoT) along with Information Management (IM) and Business Intelligence (BI) solutions.

As on March 31, 2018, Saksoft had 5 subsidiaries (4 wholly-owned subsidiaries and DreamOrbit Softech Private Limited, where the company holds 60%) and 6 step-down subsidiaries across geographies like US, UK, and Singapore.

Credit Risk Assessment

Vast industrial experience of the promoters and long track record of operations

Saksoft was founded by Mr Aditya Krishna (Chairman and Managing Director) in 1999. Mr Aditya Krishna has about 30 years of experience in the banking and financial services industry having served in senior positions in renowned global banks. In 1995, he started a retail financing NBFC which was acquired by a leading US based global bank in 2000. The day to day affairs of Saksoft are overseen by experienced IT professionals heading various geographies with a well defined organisation structure.

Saksoft is part of the Sak group of companies operating under Sak Industries Private Limited (SIPL, promoter group company). Earlier, the group was engaged in manufacture of carbide cutting tools. By the year 2000, the group had diversified into manufacture of industrial abrasives, financial services and information technology services. While the cutting tools and financial services business were acquired by other leading players, the group is still engaged in abrasives manufacturing under SAK Abrasives.

Over the years, Saksoft has expanded its business by acquisitions which have given it access to new markets and niche technologies. Some of the major acquisitions include Acuma group of companies, UK (in 2006), Electronic Data Professionals Inc, USA (in 2012), Three Sixty Logica Testing Services Private Limited (TTSL), India (in 2014), DreamOrbit Softech Private Limited (DreamOrbit), India (in 2016) and Faichi Solutions LLC(in 2018).

Medium sized operations with focus on niche Information Management space

Saksoft is a medium sized IT company with total revenues in the range of Rs.245.39 crore – Rs.286.93 crore during the past three years ended March 2018. The medium size of operations arises from the fact that Saksoft is present in the niche information management space within the IT industry. While at one end of the spectrum the company provides consultancy services to new customers, the company also under takes support services to ongoing / delivered solutions including training, skill transfer and staffing services. With the acquisition of Dreamorbit and Faichi Solutions, the company has expanded its presence into logistics and healthcare industries respectively . Such integrated offering is expected to help the company in upselling and cross selling its services to existing customers thereby increasing the revenue. Further, the company is targeting clients with turnover in the range of \$200 million - \$5 billion.

Strong client relationships

Saksoft, with its rich experience of the promoters in BFSI (Banking, Financial Services, Insurance) domain, started with services primarily aimed at BFSI clients. The company has worked with leading global banks and financial institutions. Though BFSI clients are known to be large spenders on IT, vendor consolidation from time-to-time continues to be a

concern for small and medium sized vendors. With some of its large key clients moving out due to vendor consolidation in the past years, the company shifted its focus on clients with turnover of about \$200 million –\$5 billion. Hence, the average order size has become smaller. But this also led to acquisition of smaller customers whose dependency on Saksoft is higher. During FY18, about 80% of the total revenues came from existing clients and new clients/orders made up to the balance portion. Furthermore, in order to strengthen its client relationships, Saksoft also partners for some of the services with niche third party service providers, when the company doesn't have required expertise. This enables the company to be one point contact for the client for the entire gamut of their IT service.

Geographic and client concentration risk

The company derives about 90% of its revenue from USA and UK. These regions are the largest markets in the IT Space. The geography wise distribution of revenues for the past three years is given below.

Revenue (Rs. Cr)	FY16	%	FY17	%	FY 18	%
USA	143	58%	150	58%	166	58%
UK	78	32%	88	34%	91	32%
Asia Pacific	24	9%	22	8%	29	10%
Total	245		260		286	

Over the last 3 years, there has been no change in the geographical share of company's revenue. On the client concentration front, top 5 clients contributed 42% of the total revenue in FY18 as against 38.34% in FY17, mainly due to increased revenue from the top 2 clients (31%). However, the company has added new clients to the list of top 10 customers on account of the acquisitions.

Stable revenue growth, healthy profitability levels and comfortable capital structure

During FY18, the company reported a total operating income Rs.286.93 Cr, a growth of 10.2% from total operating income of Rs.260.35 Cr. reported during FY17. The operating income grew at a CAGR of 5.35% over the past 3 years. FY18 is the full year of operations post acquisition of Dreamorbit and the growth in revenue is on account of this. Business Intelligence services generally have a relatively lower profit margin and the PBILDT margin of the company was in the range of 10.77% to 11.71% during FY13 – FY15. To improve its profitability levels, the company started actively managing its client portfolio by letting go off clients with lower margins during FY16. However, the margins moderated to 13.61% during FY17 due to increased share of outsourced third party services and adverse exchange rate movement. Acquisition of Dreamorbit during Q3FY17 also had an impact on the margins. The company's PBILDT margin improved to 14.17% in FY18. Going forward, integration of acquired companies and resultant synergy benefits are expected to help Saksoft improve its profitability levels.

The capital structure of the company remains comfortable with Debt Equity ratio of 0.13x and overall gearing of 0.15x as on March 31, 2018 as compared to Debt Equity ratio of 0.16x and overall gearing of 0.17x as on March 31, 2018. The company had financed most of its acquisitions through internal accruals and debt from group companies with minimal reliance on external debt.

Intense competition in the IT industry

Many Large Indian IT players have significant presence in IM space with a larger client base and may pose hindrance for Saksoft to acquire larger deals. Additionally, wage inflation, employee attrition levels and adverse changes in U.S. and U.K. laws, including those relating to outsourcing and immigration inherent to the IT services sector, economic environment in these markets remain challenges in the future. IT being discretionary spend, any cost reduction initiative would result in reduction in IT spends by the clients and the same can impact the growth prospects of Saksoft.

Prospects

Saksoft, has over the years steadily grown in size owing to acquisitions which has given access to new geographies and niche technologies. Nevertheless, being a small-sized player, it faces intense competition in the Indian IT services sector from large as well as mid-tier IT companies. Ability of Saksoft to improve its profitability levels and increase business volumes from existing clients would be key to its prospects. Also, any large debt funded acquisitions in the future and successful integration of acquired companies would be crucial from a credit perspective.